Suboptimal Institutions but Superior Growth: The Puzzle of China's Economic Boom

1 Sub-optimal institutions but superior growth: the puzzle of China's economic boom[1]

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A central claim of most theories of economic development is that a key to successful growth is "getting the institutions right." In the West there is a rich literature devoted to what makes institutions right or wrong in terms of fostering growth, dating from at least the time of Adam Smith and on down through Ronald Coase (1988, 1992), Douglass North (1990,1995; North and Thomas 1973), Dani Rodrik (2007), and many others.[2] The set of institutional arrangements that came to be labeled the "Washington Consensus" (Williamson 1990) was an attempt to specify a list of ten institutional arrangements that would optimize economic growth. However, the relatively poor results of those countries (particularly in Latin America) that tried to follow the Washington Consensus formula most closely (see Rodrik 2008; Stiglitz 2008) has led to considerable doubt about this particular development formula and has raised new questions about whether it is possible or useful to try to specify what institutions are good for growth.

On the other side of the globe, China for more than three decades has compiled a record of very impressive economic growth, a record that has transformed the face of that society, substantially reduced mass poverty, and created the second largest economy in the world. This record poses a challenge for conventional analyses of economic development, since in a number of key respects the growth strategy pursued by Deng Xiaoping and his colleagues seems to have involved "getting key institutions wrong." It is these departures from conventional generalizations about economic development that

have led to a variety of attempts to specify a "Beijing Consensus," an alternative and perhaps more successful set of institutions and policies for promoting growth in poor countries (e.g., Ramo 2004).

In what ways has China's strategy for development since 1978 contradicted the conventional view?[3] In multiple ways, among which two departures are highlighted in most discussions: the continuing strong role of the state in guiding economic development in China and the relative absence of secure private property rights. On the latter point, Acemoglu, Johnson, and Robinson (2005: 395) define good economic institutions as "those that provide security of property rights and relatively equal access to economic resources to a broad cross-section of society." Those authors and many others assume that good economic institutions, so defined, are necessary in order to produce the kinds of ambition, effort, risk-taking, skill-acquisition, and innovation from economic actors high (e.g., managers, entrepreneurs, inventors) and low (e.g., ordinary workers and farmers) that will translate into robust growth. However, China over the last three decades has been characterized not only by weak private property rights, but also by sharply increased inequalities and manifestly unequal opportunities. For example, Chinese farmers still do not have full legal title to the land they farm, and if they migrate to the cities in search of work, their rural or agricultural registration status (*hukou*) brands them as members of a subordinate caste, not entitled to multiple kinds of services and benefits enjoyed by possessors of urban *hukou* (see Whyte 2010a). Given these seemingly "bad" institutions, how can we explain China's extraordinary growth trajectory?

In this chapter I do not focus much on the role of the state or on property rights issues per se. Instead I focus on inequality trends in contemporary China and their implications for the motivations and productivity of ordinary Chinese citizens. Based upon this analysis, it is my contention that, at least regarding patterns of inequality and opportunity, China's experience does not require us to abandon conventional formulas in favor of a new set of prescriptions for growth, whether a Beijing Consensus or otherwise. Instead we need to consider Chinese institutional arrangements today against the backdrop of the arrangements that prevailed in the last stages of China's socialist planned economy. Viewed in this light, property rights and opportunity structures in China today should be viewed as "sub-optimal" rather than "bad," while at the same time as vastly improved compared to the very poor institutions of the late-Mao era.[4] I will draw on evidence from China national surveys colleagues and I carried out in 2004 and 2009, focusing on popular attitudes toward inequality in China and comparisons with other societies, to support my claim that current opportunity structures in China are compatible with the kinds of high citizen motivations needed for economic development.

Market reforms and trends in social inequality

There is another kind of conventional wisdom (in addition to neo-liberal theorizing about good institutions) that merits discussion before I launch into my own analysis. There is a considerable body of commentary, both within China and outside, that stresses the harmful and destabilizing nature of the inequality trends unleashed by China's market reforms. I refer to this as the "social volcano" scenario (see Whyte 2010b). According to

this analysis, the benefits of China's reforms, in terms of high growth rates and improved average living standards, are in the popular mind offset by the sharp increases in inequality that have occurred. (Figure 1.1 plots the trends in the Gini coefficients of income distribution for China and selected other countries in recent years, showing China's sharp rise in income inequality.) Most Chinese are assumed in this scenario to be increasingly angry about rising inequality and to believe that most of the gains of the reforms are being monopolized by the already rich and powerful.[5] This anger, in turn, is assumed to foster nostalgia for the perceived greater equality that prevailed at the end of the socialist era under Mao. It is also often asserted that large portions of the Chinese population are being left out of the new wealth and opportunities created in the reform era, and that those who are most left behind (e.g. farmers, migrants, residents of interior provinces, etc.) are particularly angry. A final element in the social volcano scenario is the prediction that concentrated anger about current inequality patterns and trends will at some point explode into widespread protests that may destabilize China's political order.

(Figure 1.1 about here)

If these assumptions of the "social volcano" scenario are correct, then China's rapid and sustained economic growth since 1978 is hard to explain. A sullen and angry population that feels that new opportunities are being monopolized by the rich and powerful, and that yearns for the perceived greater fairness of Mao-era socialism, would not seem to provide the human energy that is so widely visible in China today. Our survey work in

China in recent years reinforces this skepticism. Based upon our data, I conclude that the various elements of the social volcano scenario are misleading or dead wrong, resulting in my labeling of this scenario as a myth (Whyte 2010b). In the next section I present selected survey responses that provide the basis for my rejection of the social volcano scenario. By the same token, I interpret these survey data as providing support for my claim in this paper that current popular attitudes in China are compatible with, and conducive toward, the human efforts and energy needed for economic growth, despite the continued existence of "suboptimal" institutions.

China surveys on inequality and distributive injustice

More than a decade ago, it became apparent that a great deal of research on trends in objective inequality in China had been conducted and published (see, for example, Griffin and Zhao 1993; Khan and Riskin 2001), but that no surveys had been carried out on Chinese citizen attitudes toward the inequality patterns spawned by market reforms. In collaboration with colleagues, I directed a pilot survey in Beijing on inequality and distributive justice attitudes in 2000, and then two China national surveys, in 2004 and again in 2009, to learn how ordinary Chinese citizens view current inequalities.[6] The results presented here come mostly from the 2004 China national survey, but they are followed by a brief update based upon the 2009 follow-up survey.

In designing these China surveys, we made use of the fact that surveys on attitudes toward inequality and distributive justice issues had already been carried out in other countries, so that by replicating in China questions from these earlier surveys, we

would be able to compare Chinese popular attitudes on inequality issues with those of citizens in other societies. In particular, we became aware of the International Social Justice Project (hereafter ISJP) surveys that had been conducted in the 1990s in a number of East European post-socialist societies, as well as in a few advanced capitalist societies (see Kluegel, Mason, and Wegener 1995; Mason and Kluegel 2000). Below comparative data from the ISJP surveys are used to put the 2004 China survey responses in context.[7]

The 2004 China Survey on Inequality and Distributive Justice Attitudes used spatial probability sampling (see Landry and Shen 2005) to identify and interview a nationally representative sample of 3267 Chinese adults between the ages of 18 and 70, with a response rate of about 75%.[8] By using our results to examine how ordinary Chinese citizens feel about a range of inequality and distributive justice issues, and by comparing their views with their counterparts in other societies, and particularly in Eastern Europe, we can gain some insight into whether they feel that opportunities in China are widely available and fairly distributed versus being scarce and unfairly monopolized by the advantaged few.

China's current inequalities: how fair or unfair?

No single question, measure, or even attitude domain can capture how citizens of a society feel about the fairness versus unfairness overall of current inequalities and the opportunity structures they reflect. So in our China surveys (as in ISJP and other earlier surveys) we used a variety of different questions to probe perceptions and preferences

regarding various aspects of inequality. We consider in sequence some of our key indicators, first for China alone, and then in comparative perspective.

Too Much Inequality?

First, how do our survey respondents feel about the gap between rich and poor in Chinese society today? We asked our China respondents three questions—about the income gaps in the country as a whole, in their work unit, and among their neighbors, with the response categories in each case being "too large," "somewhat large," "about right," "somewhat small," and "too small." In Figure 1.2 we can see that for China as a whole, a substantial majority of respondents - 71.7% - said that current income gaps are too large. However, when viewed in relation to responses on the other two questions, Chinese citizens do not seem all that angry about current income gaps. The other two questions concern local inequalities - within the respondent's work unit and among their neighbors - and on these questions a majority of respondents (49.9% and 56.1%) said current income gaps are appropriate. Furthermore, if we compare Chinese attitudes with those of citizens in other societies, as shown in Table 1.1 (only for national income gaps, as the other two questions were not asked in the ISJP surveys), it turns out that a substantial majority in all the ISJP countries surveyed felt that national income gaps were excessive. And the percentage of Chinese who held this view (71.7%) is among the lowest, with only Americans in 1991 (65.2%) and Poles in the same year (69.7%) slightly less likely to view current national income gaps as too large. At the other end of the scale, about 95% of both Bulgarians and Hungarians in 1996 said that national income gaps were too

large. From these figures it is clear that Chinese citizens do not stand out as particularly angry about current income gaps, especially when we consider that the most meaningful comparisons people make are with others in their immediate social environment, and not with distant billionaires and celebrities.[9]

(Figure 1.2 and Table 1.1 about here)

Does Upward Mobility Depend upon Merit?

Since a sense of the fairness versus unfairness of current inequalities is not so much a matter of the size of the gaps, but more of who is rich and who is poor, and whether people got to their current positions due to merit or not, we followed ISJP in asking a series of questions regarding how survey respondents would explain why some people are poor and why some others are rich. We first presented respondents with a series of possible explanations for why some people are poor, including both merit explanations (e.g. lack of talent, not working hard, or insufficient education) and non-merit explanations (e.g. unequal opportunity, discrimination, unfair economic system), and then we followed this with a similar list of possible explanations for why some people are rich. In each instance we asked the respondent to judge the relative importance of a specific explanation of current poverty (or wealth), with the responses being "very large influence," "large influence," "some influence," "small influence," or "no influence at all." We present the Chinese responses in Figures 1.3 and 1.4, with the most widely stressed explanations at the top of each chart, and the least emphasized at the bottom.

(Figures 1.3 and 1.4 about here)

It is immediately apparent from these charts that Chinese survey respondents are much more likely to explain who is currently rich versus poor in terms of variations in merit than in terms of the unfairness of the social and political order. These results clearly imply that the majority of our survey respondents, and therefore we may presume a majority of Chinese adults, accept the view that education, hard work, and talent are likely to lead to improved living standards and even wealth, while those who remain poor or fall into poverty should mainly blame their own failings, rather than an unfair social order within which they have to live and compete.

How do these attributions of poverty versus wealth look in comparative perspective? In Tables 1.2 and 1.3 we display the comparable figures from our survey and selected ISJP countries (education was not included in the explanations of poverty and wealth in the ISJP surveys). These comparative figures make the Chinese response patterns even more striking. Across the board, China is an outlier in terms of viewing the current patterns of who is poor versus rich even more than citizens in other countries in terms of variations in merit. In other words, even in comparison with citizens in advanced capitalist societies, Chinese view the current gaps between rich and poor as relatively more fair. A rough ranking of countries along a continuum from fair (i.e. merit-based) to unfair (non-merit, structural discrimination) inequalities is as follows:

Fair➔ China➔ Japan➔ Advanced Capitalism➔ Eastern Europe➔ Unfair

Once again our results fly in the face of the contention that many if not most Chinese see current structures of inequality and opportunity as unlikely to reward meritorious efforts and thus as unfair.

(Tables 1.2 and 1.3 about here)

It is certainly not the case, however, that Chinese survey respondents view all current inequalities as fair. We included in our survey a set of questions about the fairness versus unfairness of various kinds of current discrimination against migrants and individuals of rural origin, as enforced through China's *hukou* system. Because these institutional arrangements are a unique feature of Chinese society, we do not have any comparable ISJP responses with which to compare them. But the response patterns in Figure 1.5 make it obvious that a substantial majority of China survey respondents disapprove of all of these forms of discrimination against rural people and migrants. Furthermore, more detailed examination indicates that urbanites (i.e., those who possess urban *hukou*) are as much or more likely than villagers or migrants to say that these kinds of discrimination are unfair (details not shown here; see the discussion in Whyte 2010b, Chapter 8). So here is a key feature of current inequalities that our survey respondents see as very unfair, rather than fair. However, it is important to note that the *hukou* system and the patterns of discrimination based upon it are not a product of China's market reforms and post-socialist transition, but instead are a legacy of China's socialist era that persists to the present (see Wang 2005; Whyte 2010a). It seems likely that these kinds of

discrimination are viewed as unfair by most survey respondents precisely because they classify and treat people differently based upon where they were born, rather than based upon their individual talents and diligence. These results challenge two key features of the "social volcano" scenario - the claims that socialism under Mao was a highly egalitarian social order and that Chinese citizens today are nostalgic in general for the greater equality of that era.

(Figure 1.5 about here)

Ample or Scarce Opportunities to Get Ahead?

The final domain of survey responses to be considered here concerns feelings of optimism versus pessimism about the opportunities currently available to improve one's living standard and social status. We have a variety of measures available in our 2004 China survey that bear on this issue. First, we asked survey respondents whether they thought that the proportion of Chinese who are poor would increase, remain about the same, or decrease in the coming five years, and we followed this up with the same question about the proportion of Chinese who are rich. As shown in Figure 1.6a, the most common responses were that the proportion of poor Chinese would decrease (43.2% gave this response) and that the proportion of rich would increase (61.1%). We also asked them about what they thought their own family's living standard would be five years from now, with five response categories: much worse, somewhat worse, no change,

somewhat better, much better. Again the majority view was quite optimistic, with 63.1% predicting improvement and only 7.5% expecting deterioration (see Figure 1.6b).

(Figures 1.6a, 1.6b, 1.6c about here)

Figure 1.6c displays patterns of responses to four more general statements presented to respondents, in each case asking them to respond using a 5 point scale ranging from strongly disagree to strongly agree: "Based upon the current situation in the country, the opportunities for someone like you to raise their living standard are still great;" "Currently, the opportunities to be successful are the same for all people;" "People with different family backgrounds encounter different opportunities in society;" and "In our country, hard work is always rewarded." In regard to the second question (opportunities are equal) opinions are divided, with neutral responses most common, and only slightly more respondents agreeing (37.5%) than disagreeing (30.9%). When the same basic question was asked the other way around (in the third question in Figure 6c), a majority of respondents (59.5%) recognized that family backgrounds influence future opportunities. However, the responses to the other two statements are again more optimistic. Overall 56.8% of respondents agree that the opportunities to get ahead in China today are still great, while 61.1% agree with the dubious statement that hard work is always rewarded.

The responses to the "equal opportunities exist" and "family background affects opportunities" questions indicate that most respondents recognize that China is not a

society characterized by equality of opportunity.[10] However, the responses to the other two questions in Figure 1.6c indicate that most Chinese also do not view competition for upward mobility as a zero-sum game. Even if some individuals who have special advantages are more likely than others to get ahead and become rich (and are less likely to fall into poverty), a reality acknowledged even in the responses displayed in Figures 1.3 and 1.4, their advantages are not seen as substantially affecting or diminishing the chances for ordinary Chinese citizens to get ahead through talent and effort.[11]

Once again we can compare many of these Chinese responses with the views of respondents in the ISJP surveys. Tables 1.4a-1.4c display the comparative figures. It is obvious, first, that fewer Chinese expect the proportion of their fellow citizens in poverty to increase than in any of the other countries displayed in the table, while a higher proportion of Chinese expect the proportion of their fellow citizens who are rich to increase (Table 1.4a). We only have responses to the question about expectations for the respondent's own family's standard of living five years later for a few countries, but compared with the few East European countries in which this question was asked, a much higher percentage of Chinese (63.1% versus 20+%) say they expect to be doing better five years later (Table 1.4b). Only two of the four questions used in Figure 6c are available in the ISJP surveys, and they show a mixed picture (Table 1.4c). The percentage of Chinese who feel that equal opportunities exist (37.5%) is higher than in any of the East European countries surveyed, but roughly comparable to the figures for West Germany, Japan, and the UK, and substantially below the quite unrealistic responses from Americans (65.9%). However, in regard to whether hard work is always

rewarded, Chinese respondents are again off the scale with 61.1% agreeing, far ahead of all the other ISJP countries, whether advanced capitalist or post-socialist. Overall, China survey responses in 2004 indicate that in most respects Chinese viewed current inequalities more favorably than their counterparts in Eastern European transitional societies, and that they were generally as approving and sometimes more so even when compared with citizens in advanced capitalist societies. The high degree of acceptance of current patterns of inequality and optimism about mobility opportunities are striking characteristics of Chinese citizen attitudes, contradicting claims that strong feelings of distributive injustice are widespread in that society.[12]

(Tables 1.4a, 1.4b, 1.4c about here)

Social Contours of Distributive Injustice Feelings in 2004

One other surprising finding emerging from the 2004 survey was that the conventional wisdom about in which social groups, and within which locales, we would find the most anger about rising inequalities was incorrect. Based upon analyses in the "social volcano" vein and media phrases such as "the pitchfork anger of peasants" (Time Asia 2006), one would expect to find respondents at or near the bottom of China's social hierarchy to be particularly critical of current inequalities, while successful and high status respondents would have more positive views. However, what we actually found was almost the opposite. On some, but not all, of our inequality attitude measures, rural respondents, and those still engaged in farming in particular, expressed more acceptance

of current inequalities than favored urbanites, while within urban areas the well educated (and also middle aged respondents) tended to be somewhat more critical. The detailed findings that lead to these conclusions are too complicated to present here (but see Han and Whyte 2008; Han 2009; Whyte 2010b), but this pattern of differences serves as an important clue that will be used later to help answer the puzzle of how China has been able to achieve such rapid growth despite sub-optimal institutions.

Did Popular Attitudes Change between 2004 and 2009?

My colleagues and I are still in the early stages of analyzing the data from the 5-year follow-up China national survey we carried out in 2009, and I will not present here a systematic comparison of the two surveys.[13] Instead I will content myself with two broad but tentative generalizations. Initially as we planned the follow-up survey, we expected that the global financial crisis would have serious effects on China's economic growth rate and employment numbers, and that as a result Chinese survey respondents in 2009 might display more critical attitudes about current inequalities. There were some events that reinforced this expectation, such as the reported dismissal of about 20 million workers in export-oriented factories early in 2009. However, as we all know by now, China's leaders reacted to the global crisis with a huge financial stimulus package and other energetic efforts to keep the economic boom going, and China suffered much less, and recovered more robustly, than most other countries on the globe.

That reality is reflected in my first generalization based upon comparing popular attitudes in 2004 and 2009: While 2009 respondents were a bit more critical in their

views on some questions about current inequalities, their views on other aspects were much the same or even more favorable. On balance there was no sign of any overall increase in anger about distributive injustices. And in the domain of views about opportunities to get ahead, 2009 responses tended to be more optimistic than in 2004. For example, the percentage of respondents who expected their families to be better off five years later increased from 61.7% to 73%, while the percentage who agreed or strongly agreed with the statement that "hard work is always rewarded" went up from 61% to 65.5%.[14] Obviously China's "social volcano" (purportedly fueled by anger about inequality trends) was still dormant in 2009.

The second tentative generalization to emerge from comparison of results from the two China surveys is that the social contours of distributive injustice attitudes have altered in subtle but important ways. Most importantly, on many of our measures the tendency in 2004 for China's rural citizens to have more positive attitudes about current inequalities than their urban counterparts is no longer so apparent in 2009. However, in most instances the reason for the convergence of rural and urban attitudes on these issues is not because rural respondents in 2009 were more angry than their counterparts five years earlier. Rather, for the most part the tendency in 2004 for urbanites to express somewhat more critical attitudes on inequality issues has diminished, producing convergence toward the more positive rural attitude levels. While my colleagues and I are still pondering the meaning of these altered attitude contours, on balance we see no evidence from our surveys that popular attitudes toward current inequality patterns are

turning more critical in recent years, either for the sample as a whole or for particular social groups or locales.

Popular attitudes and economic growth: the chicken versus egg problem

At this point it is logical to ask whether I have made any progress in solving the puzzle of how Chinese sub-optimal institutions can promote rapid economic development? After all, I have been presenting evidence about citizen opinions regarding current inequalities from two surveys conducted 26 and 31 years after China's market reforms were launched. Isn't it very likely that the profile of attitudes discussed here (the egg) is caused by China's robust economic growth (the chicken), rather than being a major cause of that growth (the egg coming before the chicken)? It is virtually certain that China's successful growth and improved living standards are major reasons for the accepting and optimistic views revealed in both surveys. However, in the remaining pages of this paper I make a case that causation is likely reciprocal, and that positive motivations and attitudes of Chinese citizens have contributed to China's economic boom. In other words, the popular attitudinal egg likely also contributed to the robust economic growth chicken.

Since there were no comparable attitude surveys conducted in China in the late 1970s and I lack a time machine to go back and correct that omission, I can't know for sure what Chinese attitudes were like at the time that market reforms were launched in 1978. However, I attempt here somewhat speculatively to present an account of the institutional changes that have occurred in China since before the revolution and their

likely impact on citizen attitudes toward inequality and social mobility issues. In this account I argue that through successive institutional changes in the Mao era, the contradiction between the institutions that monitored, rewarded, and promoted individuals vis-a-vis prevailing popular attitudes about schooling, work, and social mobility became not just sub-optimal, but worse and worse (and worse than the counterpart disjunction in the Soviet Union and Eastern Europe at the time), and that the post-1978 market reforms substantially reduced, even if it did not totally eliminate, this contradiction. This return to closer compatibility between citizen orientations and institutionalized opportunity structures, I contend, helps to explain a major part of China's economic success after 1978. The analogy that comes to mind is of a compressed spring, with human talent and energy increasingly suppressed in later stages of Mao's rule, but now released once again.

China's Traditional Legacy

No brief discussion can do justice to the complexity of the stratification structures of late-Imperial and Republican China. However, several key features are central to my analysis. First, although the gap between rich and poor was very large, for the most part it was a society "open to talent," without inherited caste, aristocratic, or other status barriers. (For a stylized depiction of the inequality hierarchy in late-Imperial China, see Figure 1.7)[15] In that social order individuals from poor and humble origins faced daunting odds, but they were not prohibited from, and sometimes did succeed in, vaulting upward in social status and wealth, whether through schooling, commerce,

entrepreneurship, or even banditry or good luck (see Chow 1966). By the same token, downward mobility was also common, with families having to struggle to avoid losing out to competitors and falling into poverty. This open but competitive environment, when combined with high emphasis on schooling and centuries of familiarity with money, commercial contracts, and other economic transactions, produced a widespread sharing of "economic literacy" and strong drives to get ahead even among uneducated villagers. As Thomas Rawski (2007: 103) speculates, "Take two populations of children with similar distributions of intelligence and access to schooling. One population is reared in Chinese villages: the other, in some other cultural venue (medieval Europe, contemporary Bihar or Bangladesh) at a similar level of economic development. The hypothesis is that, upon maturity, the former population will display a stronger array of market skills and accomplishments than the latter."[16] The third point is that before 1949, in those unusual periods in which China was at peace and enjoyed relatively good governance, the country was able to achieve respectable economic growth rates. Thomas Rawski, once again, makes this case for the Republic's Nanking decade, 1927-37 (Rawski 1989). In other words, given a suitable institutional environment, the social capabilities and human energies of ordinary Chinese would foster economic growth.

Mao Era - The Early Years, 1949-57

The prolonged warfare, social chaos, and runaway inflation of the years between 1937 and 1949 made it difficult for many Chinese to figure out how to survive, much less plan for the future and get ahead. In most respects the situation changed for the better after the

CCP came to power in 1949. National political order was secured, inflation was rapidly brought under control, and ambitious expansions in schooling, health care, industrial development, and government employment were launched. Members of prior elite classes were victimized, but for most of the population the opportunities to get ahead were much more available and predictable than before.[17] Millions of villagers poured into the cities seeking employment, and the combination of economic rehabilitation, Soviet-assisted key industrial projects, and the vast expansions of government employment required by the soon-to-be socialist state created abundant opportunities for Chinese of humble origins to get educated, become urban residents, and gain higher status and more secure employment. Education at all levels expanded rapidly, and the increase in university places made it relatively easy for students who graduated from upper middle school to go on to college in the mid-1950s (Unger 1982).

Until near the end of this period, China retained a mixed economy, with medium and small scale private businesses and family farms still predominating, while in the not-yet-dominant state sector, the influence of the Soviet model led to reliance on material incentives, bonuses, and other standard socialist remuneration practices. As a result, most of the population in these early years operated within a fairly positive institutional context in which incentives and opportunities existed that fairly predictably rewarded diligent study and hard work as well as political enthusiasm.[18] China's overall economic performance was also strong during this period. Discounting the initial recovery period, the rate of economic growth in the years 1952-57 has been variously estimated as between 6 and 8 percent annually (Yeh 1973). Although this is below the average of the

post-1978 period, it is nonetheless an impressive record. Although the contribution to this performance of institutions designed to motivate Chinese citizens to study and work hard may be debated, it seems clear that those institutions did not constitute an obstacle to economic recovery and growth during this early period of CCP rule.

Mao Era - Later Years and Increased Obstacles, 1958-77

From 1958 onward, China's situation changed in dramatic fashion. Two cataclysmic eruptions launched by Mao, the Great Leap Forward and the Cultural Revolution, created new and escalating obstacles to the kind of citizen motivations needed for economic development. Taking the Leap first, the initial optimism generated by official propaganda was followed by a devastating economic collapse and mass famine, and these effectively short-circuited or even reversed the chances for getting ahead for most (surviving) Chinese.[19] Multiple kinds of basic changes were involved. Urban firms expelled to the countryside some 20 million newly hired rural migrants (Murphey 1980), many urban employees and workers had their wages frozen for the two decades that followed, and tight rations and persistent hunger became regular features of urban life (Whyte and Parish 1984). Substantial segments of relatively privileged urban work organizations (e.g. coastal factories, universities) and their employees and dependents were forcibly relocated into interior and often remote locales under the "third front" defense campaign launched in 1964 (Naughton 1988). In the countryside the options of migration to the city or engaging in a family business were closed off, and for the next two decades Chinese villagers essentially became "socialist serfs," bound to the soil in people's

communes and required to concentrate their energies on collectivized agricultural labor. University enrollment levels were cut back sharply even as the number of youths graduating from upper middle school kept increasing, leading to ever-sharper competition among students for scarce opportunities to attend college (Shirk 1982; Unger 1982). Even after recovery from the Great Leap famine, the overall opportunity structure had deteriorated so substantially that many if not most Chinese mainly tried to figure out how to endure and hold on to whatever resources and status they had, rather than planning how to get ahead.

At first glance it might appear that the Cultural Revolution, for all of its political sound and fury, was less damaging to China's economic prospects than the Great Leap Forward. However, during the period from 1966-77, Cultural Revolution reforms were systematically enacted and enforced that upended the institutions for rewarding and promoting individuals that had previously existed under both Chinese petty capitalism before 1949 and under Chinese socialism prior to 1966. These institutional changes departed sharply from conventional socialist remuneration practices followed in the Soviet Union and Eastern Europe, practices that were branded as "revisionist" by Mao. After 1966 in urban work organizations, material incentives, production bonuses, and all prizes, royalties, and similar stimuli were abolished, and workers and employees were expected to be motivated by moral incentives as they labored for the same set wages month after month.

Insofar as social equality was the goal, it was pursued by "leveling down" to the lowest common denominator, rather than by programs designed to redistribute

advantages from the rich to the poor. Even the very modest personal displays of status and advantage that existed before 1966 were abolished (including signs of rank on military uniforms). Not only the political targets of the Cultural Revolution, but millions of urbanites were forcibly reassigned to a variety of rural exiles, including intellectuals and cadres sent to "May 7th cadre schools" to engage in labor and 17-18 million urban "intellectual youths" who were rusticated to people's communes and state farms. The result in urban areas was very far from social equality, however, since sharp differences in resources and rewards across work units and urban locales remained and perhaps even increased (see Walder 1984; Bian 1994). What upward mobility occurred largely took the form of political climbing, with obscure rural leaders (e.g. Chen Yonggui) and factory workers (e.g. Wang Hongwen) promoted "helicopter style" into the highest leadership ranks, although such upward mobility was swamped by the much more numerous cases of former elites who were purged, exiled, imprisoned, or killed.

Within the educational system, the use of exams, grades, and other markers of academic quality and suitability for additional schooling was denounced and largely abandoned; the curriculum was diluted to emphasize political study, military training, and labor practice as much as or more than academics; and direct entry into college after upper middle school graduation via national examinations was eliminated. Universities effectively ceased to produce any new graduates for about seven years (1966-73), and even when universities reopened after 1970, they enrolled fewer students than prior to the Cultural Revolution, and much less than prior to the Great Leap Forward.[20] Although the reform of the procedures for selecting students for college was intended to give greater

chances to the offspring of ordinary worker, peasant, and soldier families, in fact the combination of the prolonged campus shutdown (1966-70) and then much lower student enrollments almost certainly produced an actual decrease in the opportunities for youths from disadvantaged families to go to college after 1966. Once they graduated, the former "worker, peasant, soldier" college students were expected to return to their prior communities and work units, rather than using their college educations to gain higher status and pay. These institutional arrangements in education constitute a thoroughgoing repudiation of the educational institutions and expectations that had been bedrock foundations of China's social order for centuries.

In the countryside the prohibitions on geographic mobility and non-farm activities that had been enforced since 1958 were maintained, but after 1966 new restrictions were added. The prevailing "time rate" and "piece rate" work point incentive systems that had been in place since collectivization in 1955-56 to reward differential effort and skill in farming were criticized, and localities were encouraged to replace them with the "Dazhai work point system," in which individuals went to work in the collective fields and then submitted to periodic meetings in which fellow peasants discussed who should get a little more or a little less (Parish and Whyte 1978). Even on their collective fields farmers were discouraged from growing crops and animals to suit local conditions and market demands and were instead under pressure to emphasize achieving self-sufficiency in grain production (Lardy 1985). Regular attempts were made to discourage the vestigial household private economic activities that Chinese collectivized agriculture, following Soviet practice, had allowed since the mid-1950s. Too much time and energy spent on

private plots and animals was subject to criticism, efforts were made to limit the frequency with which nearby markets met, and villagers were strictly forbidden from taking produce or handicrafts into nearby cities to sell. Rural factories were required to only produce goods (e.g. farm tools, cement) that were needed locally, and not for markets elsewhere in China, much less overseas. Rural factories were supposed to pay their workers no more than what local brigade members could earn from daily agricultural labor. So in villages as well as in the cities, Cultural Revolution-era institutions were designed to prevent anyone from rising above their neighbors through their own individual or family economic efforts and ingenuity, again a "leveling down" mandate. However, it is important to keep in mind again that the result was very far from an egalitarian society. China's villagers, who still constituted about 80% of the population in 1978, were consigned to an inferior caste status and bound to the soil, with their living standards, access to benefits, and opportunities in life more and more diverging from those of favored urbanites (Potter 1983; Whyte 1983).

In sum, by the end of the Mao era, China had a transformed inequality and opportunity structure, and the implications of that structure for motivating the talents, efforts, and creativity of ordinary Chinese were very negative. The post-1962 Maoist obsession with classes and class struggle led to draconian efforts through the Cultural Revolution reforms to limit income differences and displays of social status within particular communities and work units, but at the same time the very substantial and in some instances widening income and opportunity gaps between work units, localities, and regions, and between city and countryside, were basically ignored. Reforms in wage

systems, rural work points, marketing systems, university enrollment, and much else conveyed the message that each Chinese citizen was expected to exert maximum effort to benefit the state and society, but without expecting any rewards or increased access to opportunities or improved status for themselves and their families. And they lived in a highly contentious and uncertain atmosphere of mysterious and apparently continuous political campaigns and struggles in which downward mobility seemed more likely than any movement upward in social status.

It is worth stressing once again that this late Mao-era interpretation of socialism was different in key respects from socialism in the Soviet Union and Eastern Europe at the time. In those societies workers who surpassed planned quotas received bonuses and promotions, students crammed for college entrance exams that put them on a path to a university education and high status state jobs, employees could quit their jobs in a state firm to seek a better job elsewhere, and even collective farmers received higher earnings if they performed better than their neighbors (as well as being able to sell extra produce at collective farm markets in the cities). All of these conventional forms of socialist "distribution according to contributions" were branded "revisionism" by Mao and his radical colleagues, who tried after 1966 to systematically eliminate comparable practices from Chinese society.

When looking back on this systematic "leveling down" effort, I find myself asking, "What was Mao thinking?" In other words, in an extraordinary civilization that lasted for millennia by constructing institutions that allowed virtually all Chinese families to mobilize their energies and ingenuity to compete and try to rise up in an open but very

unequal society, and in which a cultural emphasis on both commerce and education was deeply imbued in families and communities throughout the realm, how could Mao think that it made sense to require each citizen and family to abandon all concern for success and advancement to simply serve at the beck and call of the state? Regardless of his motivations, it seems clear now that the altered institutions that ordered citizen lives at the time Mao died in 1976 were very "bad" in terms of their ability to foster the human motivations conducive to economic development.[21]

Market Reforms

It is in the context of the prevailing "bad" institutions at the end of the Mao era that the reforms enacted after 1978 (actually, starting in 1977 with repudiation of the Cultural Revolution reforms in schooling and the revival of university entrance exams), even if in key respects "sub-optimal," nonetheless constituted something like a new "liberation" for most Chinese citizens. The specific institutional changes are quite familiar (see the discussion in Harding 1987; Naughton 1995; Naughton 2007; Brandt and Rawski 2008), and only a brief listing of key changes will be offered here.

In the countryside agriculture was de-collectivized through the household responsibility system, reviving family farming and family strategizing about how to compete and get ahead. Restrictions on marketing rural produce were relaxed not only in nearby periodic markets, but also in the cities, and by the mid-1980s the roads leading into every large city were clogged each dawn with all manner of conveyances bringing produce and handicrafts (including even cart-drawn pool tables for newly opened city

pool parlors) to urban consumers. Migration restrictions were relaxed, enabling large-scale rural to urban migration, almost entirely blocked since 1960, to resume. The ban on private business activity was also lifted, enabling entrepreneurial villagers to both gain ownership of existing collective firms (e.g., former brigade enterprises, later township and village enterprises) or to start their own new businesses, either to meet local needs, to produce for the city population, or even to make goods for export overseas. These multiple new (actually revived, since all had precedents in the years prior to collectivization in 1955) possibilities and the substantial reductions in poverty and improved living standards and health that they made possible help explain the unusually favorable rural views about current inequality patterns noted earlier in this paper. Even if Chinese villagers face sub-optimal constraints in realms such a land-ownership and thus are objectively not as favorably positioned to compete for success as their rural counterparts elsewhere in East Asia (Greenhalgh 1989), their liberation from socialist serfdom provided a major human engine of China's post-1978 development (see also Nee 1985; Nee and Su 1990).

Perhaps the most striking direct experience with sub-optimal institutions involves the 130 million plus (at any one point in time recently) migrants who have flooded into cities in search of work and better lives.[22] As migrants they faced a daunting array of discriminatory rules and limitations, some of them noted in Figure 1.5. In addition to retaining the lower caste status indicated by their agricultural and non-local *hukou*, they have generally been barred from employment in many desirable occupations, unable to enroll their children in city public schools (unless they pay special high fees, at least until

recently), and not entitled to a wide range of housing and social benefits enjoyed by urbanites. They also often work under sweatshop conditions, lack medical insurance coverage and can be fired if injured or ill, may be subject to abuse and harassment by their employers, and tend to get blamed for crime, congestion, and other urban problems. Even if they are doing the same job as someone with an urban *hukou*, they are viewed, and tend to view themselves, as different and of lower status (a *mingong* is not the same as a *gongren*; for further discussion, see Whyte 2010a; Yan 2008.)

Despite these disadvantages, millions of former villagers continue to stream into cities all over the country in search of opportunity, and these migrants provide vital contributions to China's economic boom. For example, urban construction, commerce, domestic service, and manufacturing for export are largely driven by migrant labor, and without their presence a major city such as Shenzhen would still be a sleepy train depot surrounded by farmland. Although they are subject to very inferior treatment compared to their urban *hukou* fellow citizens, most do not compare themselves with urbanites, but instead with fellow migrants and with relatives and friends back in the village. They also are fully aware of the fact that in the 20 year period after 1960, migration from village to city was forbidden, making the category of rural migrant virtually nonexistent. They also know that, despite the uncertainties, competition, and abusive conditions of migrant labor in the cities, they have many more opportunities and can earn significantly more than if they remained in their village and engaged in farming. Migrants can and often do change jobs and cities, and the option of returning to their native village always remains open as well (see Murphy 2002), with some returnees marrying and settling down in their home

villages and perhaps using their urban experiences and social ties to start a new business, rather than contenting themselves with farming. In short, compared to the "socialist serfdom" of the commune era, most migrants value their new and expanded opportunities, even though they continue to suffer from institutionalized discrimination.

In the cities the post-1978 changes involving the restoration of, and creation of new, structures of opportunity and mobility were also dramatic. The Cultural Revolution taboos on material incentives and bonuses were repudiated, rationing was cut back and then eliminated as produce and consumer goods flooded into markets, and conspicuous consumption became fashionable again, rather than politically dangerous. State firms were not subject to rapid privatization, unlike the situation in the former Soviet Union and Eastern Europe, but were instead initially subjected to more modest reforms, including instituting personnel and promotion institutions emphasizing educational credentials and work performance, while also allowing firms to re-orient their production to the market and use a substantial portion of any increased earnings to meet the needs of their employees, including for wage increases and additional housing. At the same time, restrictions on private and foreign firms were relaxed, allowing multiple new firms outside of the state sector to arise and meet employment and consumption needs of Chinese urbanites and to sell their products overseas. A labor market began to re-emerge, with some individuals leaving the security of state employment to "go down into the sea" (*xiahai*) of market competition by starting or seeking employment in a non-state business. This strategy of preserving reformed state firms while relying increasingly on the non-state sectors for new economic growth, dubbed "growing out of the plan" by Barry

Naughton (1995), produced a positive trajectory through the mid-1990s that Lau, Qian, and Roland (2000) refer to as "reform without losers."

Only after the mid-1990s, under the stern mandate of then-Premier Zhu Rongji, did the sorts of widespread firm bankruptcies, layoffs of state workers, and other major flows of downward mobility experienced in other post-socialist societies ensue, but by then almost two decades of rapid economic growth and the emergence of major employment options outside the state sector made "reform with some losers" arguably somewhat more palatable. These more mixed fates of urbanites in the years immediately prior to our 2004 survey likely explain why our urban survey respondents in that year were somewhat more critical than their rural counterparts, despite still enjoying very large advantages in life.[23]

Other institutional changes in the reform era also opened up multiple opportunity channels. A combination of purges of Cultural Revolution radicals and new mandatory retirement rules for officials produced a huge overhaul and expansion of the state and party bureaucracy, allowing the well educated and technocrats to move swiftly upward in the ranks. Wholesale privatization of urban housing starting in the mid-1990s created another set of institutional stimuli for economic competition. While most urbanites took advantage of housing reforms simply to gain legal title to the apartments they already lived in, some used their new housing assets to engage in market activity, buying extra properties for rental or sale or even launching commercial and residential property development companies, the source of some of the most fabulous personal and family fortunes in China today.

On the education front the repudiation of Cultural Revolution educational policies after 1977 was followed by newly intensified competition by Chinese parents to get their children (increasingly, their only child - see Fong 2004) prepared for exams to get into the best schools at lower levels and then through the restored national college entrance exams into a high prestige university (or even better recently, into a foreign prep school and/or overseas college). Beyond academics, multiple other paths to success and mobility attracted the attention of youth and their parents, including athletics, music, and drama. Although as elsewhere in East Asia, the competition among the young for success is often very intense, a combination of declining fertility and vastly expanded university enrollments since 1998 makes it much easier today than in the late Mao era for urban youths to obtain a college education.[24]

This listing of institutional changes since 1978 is far from complete, but it should suffice to convey the argument of this paper. Among the many changes China's reformers introduced, the effort to construct and rebuild incentive and opportunity structures in order to motivate and reward Chinese citizens high and low for effort, creativity, and productivity has occupied a central place (for more discussion see Whyte 2009).[25] The sorts of reforms listed here can be seen as motivated by a desire to find a set of institutions that are congruent with long-standing (but suppressed and discouraged during the late-Mao era) orientations of Chinese families to seek and take advantage of a range of available opportunities to better their lot in life. Mao had propagated the dogma that society could only progress and prosper by preventing individuals and families from pursuing their own selfish interests, a notion that had some resonance with ascetic

versions of Confucianism. However, Deng Xiaoping and his reformist colleagues rejected this idea in favor of a rival notion that finds justification in day-to-day neo-Confucian statecraft as well as, in the West, in the writings of Adam Smith - that by enabling individuals and families maximum opportunity to pursue their own immediate interests and improve their lives, in the long run society will benefit by becoming more prosperous and politically stable.[26] Although we lack that time machine to be certain how average Chinese citizens initially felt about the renewed opportunities to enrich themselves made possible by post-1978 reforms, the extraordinarily energetic response to the altered institutions and policies, particularly as displayed by the rapid improvement in agricultural production and rural incomes in the early 1980s (where increases of around 7% a year were registered for a few years) seems to indicate that Mao's effort to sell his notion of "smash selfishness, establish the public" (*posi ligong*) did not make much popular headway. Instead, as in the compressed spring analogy mentioned earlier, many if not most Chinese likely harbored a strong desire to be able to improve their own lives and the lot of their families (while also perhaps benefiting society), and when the reformed market institutions made that increasingly possible again after 1978, the popular response was rapid and enthusiastic. Although it may be hard to quantify, I contend that this response is a major force underlying China's dramatic growth since 1978, even in the absence of optimal economic institutions.

Can the momentum provided by sub-optimal institutions be maintained?

I have argued here that the substantial closing after 1978 of a sharp contradiction--between popular attitudes and mobility desires on the one hand and Cultural Revolution-era economic institutions on the other--unleashed suppressed human energies and ingenuity on a massive scale, even if key post-1978 institutions remained in certain key instances sub-optimal. In closing this chapter I want to speculate about whether this source of China's growth will continue to be important in the future.

If the arguments of this chapter are correct, then the answer to this question is, unfortunately for China, probably not. It seems logical to assume that the acceptability of sub-optimal institutions depends upon their being seen as improvements on what came before, even if still imperfect. And the primary comparisons discussed in this paper are with the situation that prevailed just prior to 1978 as a result of Cultural Revolution reforms and policies, which I have characterized as very bad for China's growth potential. Since the Cultural Revolution is fading in the memories of even older Chinese, with most students and younger members of the labor force today having no direct experience with life in that era, the power of that comparison must be weakening steadily with the passage of time.

For young Chinese it is logical to assume that the more relevant question is not how things today compare with the late-Mao era, but whether the institutional order in which they currently live and compete provides more fairness and opportunity to get ahead than was the case a few years ago (or is regressing and becoming more unfair).[27] In other words, to adopt the phrasing used by Yasheng Huang in his recent book, *Capitalism with Chinese Characteristics* (2008), do ordinary Chinese perceive that

current institutions are characterized by "directional liberalism" - i.e. by a fairly steady improvement in incentives and opportunities for ordinary citizens? In his book Huang argues that the directional liberalism of the 1980s largely evaporated in the 1990s, producing increasingly unfairly distributed opportunities monopolized by urbanites in general, and by urban elites and leading state firms in particular. From the evidence of our national surveys I am skeptical of Huang's pessimistic claims, particularly since we found ordinary Chinese very optimistic in 2004 about their families doing better in the future and even more optimistic in 2009. However, I agree with Huang that in order for China to maintain high rates of growth, it is important for Chinese citizens to remain convinced that their society is relatively fair and getting better over time.

China's leaders in recent years seem aware of the need to take energetic steps to improve the opportunity structures of Chinese society. From Jiang Zemin's campaign to "develop the West" through Hu Jintao's advocacy of a "harmonious society," major new initiatives have been launched designed to make China's growth more equitable and thereby to persuade the population that opportunities are expanding and becoming more widely shared. While it is debatable how much in these new programs is aimed at public relations as opposed to actually perfecting institutions and removing injustices, in some instances these new programs have made a major difference. For example, the excess burden of local taxes and fees afflicting villages and inciting popular protests in the 1990s (see Bernstein and Lu 2003) was largely eliminated by tax and fee reforms at the end of that decade,[28] grain taxes and rural tuition fees for mandatory schooling were abolished

more recently, and new village medical insurance plans were constructed after 2004 that today cover most of the rural population.[29]

However, it is also obvious that much still needs to be done to combat the sub-optimal features that may diminish China's future economic dynamism. In the countryside efforts have been made over the years to provide greater security of farmer claims to the land they farm, and even in some instances to allow hiring of farm labor and renting of land to others. However, the continuing lack of legally defensible private ownership of farmland makes difficult or impossible transactions that are common in other societies (e.g. using land as collateral for loans to improve farming operations or to start a new business) even as villagers in many parts of China feel powerless to prevent their land allotments from being lost to developers through shady deals with local officials.

For China's tens of millions of urban migrants it is also a matter of some progress but a long way to go. For close to two decades the rank unfairness of the *hukou* system has been increasingly recognized in policy discussions and in China's media, and there have been repeated calls to reform and eventually abolish institutionalized discrimination against migrants. However, after each proud announcement that the *hukou* system is being abolished (see Wang 2010; Chan and Buckingham 2010), it becomes clear that things have only changed around the edges, while pervasive discrimination against migrants remains substantially intact. For example, formal city regulations prohibiting the hiring of migrants in a large range of occupations are now formally abolished, but pervasive bias against hiring migrants continues (see Guang and Kong 2010). Similarly,

migrant children are now supposed to be able to attend regular urban public schools without having to pay special high fees, but they still face numerous obstacles. Getting access to housing in a neighborhood where a migrant family wants to send their child to school is very difficult, given preferences for urban *hukou*-holders in the housing market. Even if a migrant child is admitted to an urban public school, he or she is likely to be tracked into a separate and lower-status achievement track and to be treated more poorly by teachers and school administrators. And even if he or she completes lower middle schooling in a city school, that is the end of the compulsory schooling period, and the child is supposed to return to the parental *hukou* village in order to continue into upper middle school (and is only allowed to sit for the college entrance exam in the origin place, not alongside his or her urban classmates; see Xiong 2011). In short, despite some improvement, when it comes to getting ahead via schooling, migrant children are far from having equal opportunity with their urban-*hukou* counterparts.[30]

China has done quite well economically for more than three decades with an improved but still in significant ways sub-optimal set of institutions and incentives. However, in order to sustain robust growth into the future, it seems likely, and it appears that China's leaders recognize, that further reforms are needed to improve institutional fairness and provide better incentives for growth. This is not a story of China having developed a successful alternative growth model, Beijing Consensus or otherwise. Rather it is a story of sub-optimal institutions that initially powered growth but are likely losing their potency and acceptability over time. It remains to be seen whether China's

leadership is up to the challenge of introducing the important but difficult institutional reforms needed to optimize the conditions for future economic growth.

Notes

[1] Paper prepared for "China's Economic Dynamics and its Impacts on the World Economy: A Beijing Consensus in the Making?" University College, Dublin, Ireland, July 14-15, 2011. Thanks to Dong-Kyun Im for assistance with charts and tables for this paper.

[2] One of the most systematic treatments of the role of institutions in development can be found in Acemoglu, Johnson, and Robinson 2005.

[3] See my discussion of several paradoxes of China's development record in Whyte 2009.

[4] Making the same kind of temporal contrast, Walder and Oi (1999) refer to the "utility of suboptimal solutions."

[5] For example, a recent New York Times report (Kahn 2006) stated, "Because many people believe that wealth flows from access to power more than it does from talent or risk-taking, the wealth gap has incited outrage and is viewed as at least partly responsible for tens of thousands of mass protests around the country in recent years."

[6] The 2000 Beijing pilot survey was conducted in order to test whether a survey focusing on attitudes toward distributive justice and injustice issues was too sensitive a topic to be feasible, which turned out not to be the case. The PRC collaborator in all three surveys has been the Research Center for Contemporary China at Peking University, directed by Shen Mingming, with the assistance of Yang Ming and Yan Jie. My project collaborators for the various projects have also included Jieming Chen, Juan

Chen, David Featherman, Chunping Han, Pierre Landry, Xiaobo Lu, Albert Park, and Wang Feng, and I have been assisted in analyzing the data by a large number of graduate students at Harvard. Major funders of the surveys have included the Institute for Social Research at the University of Michigan, the Smith Richardson Foundation, and the Harvard China Fund, with additional support provided by internal university sources at Harvard, the University of California at Irvine, and Peking University. I am solely responsible for the interpretations offered in this chapter.

[7] The ISJP carried out surveys in both post-socialist and advanced capitalist countries in 1991, another round of surveys only in selected East European post-socialist societies in 1996, and then again in the Czech Republic, Hungary, and Germany (separate surveys in East and West) in 2005-2006. David Mason, Duane Alwin, and Bernd Wegener from the ISJP team provided advice and assistance as we developed our China surveys. Only selected ISJP country results are displayed in this paper. In each table only the figures for the most recent ISJP survey in which a question was asked are shown for each country.

[8] Spatial probability sampling is a technique designed to replace traditional China sampling based upon household registration records, since the latter are increasingly inaccurate due to population mobility. Spatial probability sampling involves using population density estimates and maps to randomly select actual geographical coordinates and then interview one adult per household within every de facto address found within a designated square around each such coordinate. The sampling points for the 2004 survey were located in 23 of China's 31 provincial administrative units.

[9] This generalization explains why I may covet the nicer office down the hall of a colleague, but I don't get very angry about the outrageous wealth being accumulated by Bill Gates, Lady Gaga, or Kobe Bryant.

[10] Obviously equality of opportunity is a goal or ideal that is not realized in any modern society, and it is open to debate whether China's departure from this ideal is greater, or less, than other societies.

[11] The 2004 survey included a direct question asking whether the respondent believed that some people getting rich reduced or increased the chances of other people getting rich. In response, 48.6% said they thought it increased the chances of others getting rich, while only 11.1% said they thought it decreased the chances (with the other 40.3% responding it was hard to say). In other words, more than four times as many survey respondents favored a non-zero sum as a zero sum view on competition for wealth in China today.

[12] The findings should not be interpreted to mean that ordinary Chinese are satisfied with all aspects of the social order in which they live. Our survey focused on distributive justice issues, and we did not inquire about procedural injustices, such as abuses of power, inability to counter unfair treatment from local officials, and so forth. In other publications from our project we contend that the rising tide of Chinese mass protest activity recently in almost all instances involves procedural justice grievances, not distributive justice complaints and envy of the rich.

[13] The 2009 national cross-sectional survey followed the same sampling design as the 2004 survey and ended up with a modestly reduced response rate and sample size (2967 versus 3267).

[14] The percentages for 2004 given here differ slightly from those in Figure 1.6 because slight changes in sampling between the two surveys required the use of a new sampling weight calculation for this comparison.

[15] This figure was developed by the late G. William Skinner for use in his classes on Chinese society and kindly shared with students and colleagues, including the present author. It is reproduced here with the permission of his estate.

[16] For other accounts of the distinctive pro-growth culture of pre-revolutionary China, see Arkush 1984; Gates 1996; Harrell 1985.

[17] In the jargon of social stratification research, most of the increased upward social mobility in this early period was structural (produced by economic and bureaucratic expansion) rather than circulation (produced by new elites replacing previous elites).

[18] In contrast, China's surviving capitalists were attacked and humiliated in the "5-anti" campaign of 1951-52 and then increasingly hemmed in by state regulations and controls even before the socialist transformation campaign was launched in 1955. So these economic elites were substantially deprived of the incentives for effort, innovation, and getting ahead still enjoyed by much of the rest of the population.

[19] The short-circuiting during the Leap of prior institutions for rewarding and promoting labor is only one of many sources of that disaster and won't be discussed here. My

focus is on the years after 1962 when, despite substantial recovery, the institutions for providing incentives and rewards were less favorable than prior to 1958.

[20] In 1975 there were 501,000 college students enrolled nationally, in comparison with 674,000 in 1965 and 962,000 in 1960, so total university enrollment was cut almost in half over this 15 year stretch. As a developing society with declining university enrollments (as of 1975, not since), China is highly unusual and possibly unique. Enrollment data are available at www.chinaonline.com.

[21] While the Chinese economy did continue to grow at modest rates during the early 1970s, that growth was largely "extensive" and inefficient growth, achieved primarily by high rates of savings and state investment, rather than "intensive" growth achieved through rising efficiency and productivity. And the depressed levels of household consumption that were required in order to sustain high levels of state investment in the economy aggravated the motivation and morale problems of the economic system.

[22] Recent estimates of the number of migrants in China are much larger, in the range of 240-250 million or even more.

[23] The fact that large scale layoffs from state enterprises were mainly concentrated in the years between 1998 and 2003 and that more recently that experience has not been repeated while urban average incomes and home ownership have surged may help explain why in the 2009 survey we found urban respondents generally less critical than their counterparts five years earlier.

[24] In 1995 there were 2.9 million college students enrolled in Chinese universities; by 2008 there were over 20 million (see Whyte 2010b; p. 229), with some recent visitors

reporting figures now around 30 million. This expansion has overwhelmingly benefited urban youths, who occupy most of the increased college places (see Guo 2009). It should be noted, however, that the unprecedentedly rapid expansion of college enrollments in China since 1998 has produced a new and increasingly serious problem - unemployed and underemployed and resentful college graduates, referred to as the "ant tribe" (*yizu*).

[25] Although the restoration and enhancement of incentives and mobility channels for individuals has been emphasized in this paper, equally or even more important was the reform-era effort to create and increase incentives for firms and local governments. The competitive energies unleashed at both the individual and collective levels contributed to China's economic dynamism, and even sub-optimally organized firms performed surprisingly well, such as in the massive expansion of TVEs (township and village enterprises) in the 1980s. See the discussion in Oi 1999; Oi and Walder 1999.

[26] One of Deng's most widely cited aphorisms was, "Some people in rural areas and cities should be able to get rich before others" (a 1983 quotation cited in Whyte 2010b: 1).

[27] I am suggesting that we have in China a dramatic instance of what Albert Hirschman (Hirschman and Rothschild 1973) called the "tunnel effect" in the course of economic development. Poor citizens observing others getting rich before them are like drivers stuck together in a tunnel, says Hirschman. If an adjacent lane starts moving, initially they do not get angry, but in fact feel relieved and hopeful. However, if this situation goes on for too long, and if many others leave the tunnel while they still remain stuck, that relief can eventually turn into outrage at the unfairness experienced.

[28] In our 2004 survey, about 70% of rural respondents reported that the local taxes and fees they currently paid had declined compared with three years earlier.

[29] According to data from our 2004 and 2009 surveys, rural coverage by public medical insurance increased dramatically during this period, from 15% to almost 90%, thus leaping ahead of urban coverage rates (which increased from 51% to 75% during this period), although how much is actually covered is no doubt lower in rural areas. Despite these and other reforms and improvements, the trend toward rising national income inequality has not been reversed, at least yet, according to survey data from 2007 (see Li and Sicular 2011).

[30] On another front, according to our survey data, the proportion of migrants covered by public medical insurance improved dramatically between 2004 and 2009 - from 9% to 56% - but still lagged far behind the coverage rates of villagers and urbanites (see note 29).

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Table 1.1 Views on extent of inequality (large + too large, %)

	China 2004	Russia 1996	Bulgaria 1996	Hungary 1996	Czech R. 2006	E. Germ. 2006	Poland 1991	U.S. 1991	G. Britain 1991	W. Germ. 2006	Japan 1991
National income gaps	71.7	86.3	95.6	94.9	84.8	88.6	69.7	65.2	75	78.4	72.6

Source: 2004 China survey and selected International Social Justice Project Surveys (see Whyte 2010b, Chapter 4 for details)

Table 1.2 Attribution of why people in their country are poor (important + very important, %)

	China 2004	Russia 1996	Bulgaria 1996	Hungary 2005	Czech R. 2006	E. Germ. 2006	Poland 1991	U.S. 1991	G. Britain 1991	W. Germ. 2006	Japan 1991
Lack of ability	61.3	28.0	26.7	30.8	28.8	26.6	34.8	35.2	32.8	36.5	25.7
Bad luck	26.9	28.4	38.7	28.2	31.5	24.6	32.0	15.2	22.1	26.2	24.6
Loose morals	31.2	74.0	43.1	54.0	43.8	43.9	75.3	41.7	33.4	44.4	63.1
Low efforts	54.0	39.1	35.6	28.5	45.3	32.0	42.8	47.8	34.9	44.0	62.0
Discrimination	21.2	40.8	23.0	27.0	22.3	40.4	11.1	36.4	31.5	31.4	22.8
Unequal opportunity	27.5	61.2	76.6	43.6	41.7	56.6	46.4	33.4	36.0	41.7	23.1
Economic structure	21.0	72.6	88.0	63.2	44.6	71.9	65.2	44.9	48.1	44.6	36.2

Source: 2004 China survey and selected International Social Justice Project Surveys (see Whyte 2010b, Chapter 4 for details)

Table 1.3 Attribution of why people in their country are rich (important + very important, %)

	China 2004	Russia 1996	Bulgaria 1996	Hungary 2005	Czech R. 2006	E. Germ. 2006	Poland 1991	U.S. 1991	G. Britain 1991	W. Germ. 2006	Japan 1991
Ability	69.5	48.3	34.1	42.0	54.5	51.8	46.0	59.7	53.9	59.5	65.1
Good luck	39.1	40.5	60.5	47.2	41.4	44.2	37.4	24.6	33.9	45.1	57.5
Dishonesty	17.4	74.1	82.4	48.1	64.9	43.0	62.4	42.9	35.5	33.3	27.8
Hard work	61.8	38.1	48.9	26.5	53.5	50.0	32.0	66.2	60.2	62.5	48.4
Connections	60.0	84.1	89.3	82.5	80.0	81.8	72.7	75.0	76.3	76.4	49.3
More opportunity	45.3	55.3	82.3	80.1	58.2	75.6	55.8	62.5	64.7	71.1	54.4
Unfair econ. struct.	26.0	72.7	77.5	65.5	57.8	57.4	52.2	39.4	44.5	35.6	53.0

Source: 2004 China survey and selected International Social Justice Project Surveys (see Whyte 2010b, Chapter 4 for details)

Table 1.4a Expected changes in the proportion of people who are rich/poor (increase, %)

	China 2004	Russia 1996	Bulgaria 1996	Hungary 1996	Czech R. 1996	E. Germ. 1996	Poland 1991	U.S. 1991	G. Britain 1991	W. Germ. 1991	Japan 1991
Poor trend in 5 years	26.1	47.9	75.1	77.4	n.a.	79.6	74.5	69.0	58.0	43.1	37.2
Rich trend in 5 years	61.1	41.5	32.4	42.3	n.a.	45.1	57.9	29.1	34.5	46.3	36.7

Table 1.4b Expectation for the family's living standard 5 years later (somewhat better + much better, %)

	China 2004	Russia 1996	Bulgaria 1996	Hungary 1996	Czech R. 1996	E. Germ. 1996	Poland 1991	U.S. 1991	G. Britain 1991	W. Germ. 1991	Japan 1991
Family income in 5 years	63.1	22.0	20.5	21.1	n.a.	22.3	n.a.	n.a.	n.a.	n.a.	n.a.

Table 1.4c Optimism vs. pessimism about social mobility (agree + strongly agree, %)

	China 2004	Russia 1996	Bulgaria 1996	Hungary 2005	Czech R. 2006	E. Germ. 2006	Poland 1991	U.S. 1991	G. Britain 1991	W. Germ. 2006	Japan 1991
Equal opportunities exist	37.5	22.8	7.1	11.9	31.2	20.3	25.5	65.9	41.8	31.8	38.1
Hard work rewarded	61.1	10.7	2.8	25.9	22.7	34.7	8.5	37.4	18.7	47.0	16.6

Source: 2004 China survey and selected International Social Justice Project Surveys (see Whyte 2010b, Chapter 4 for details)

Figure 1.1: Gini Coefficient Trends in China and Selected Countries
Source: United Nations University, World Inequality Database Version 2.0c, available online at http://www.wider.unu.edu/research/Database/en_GB/database/

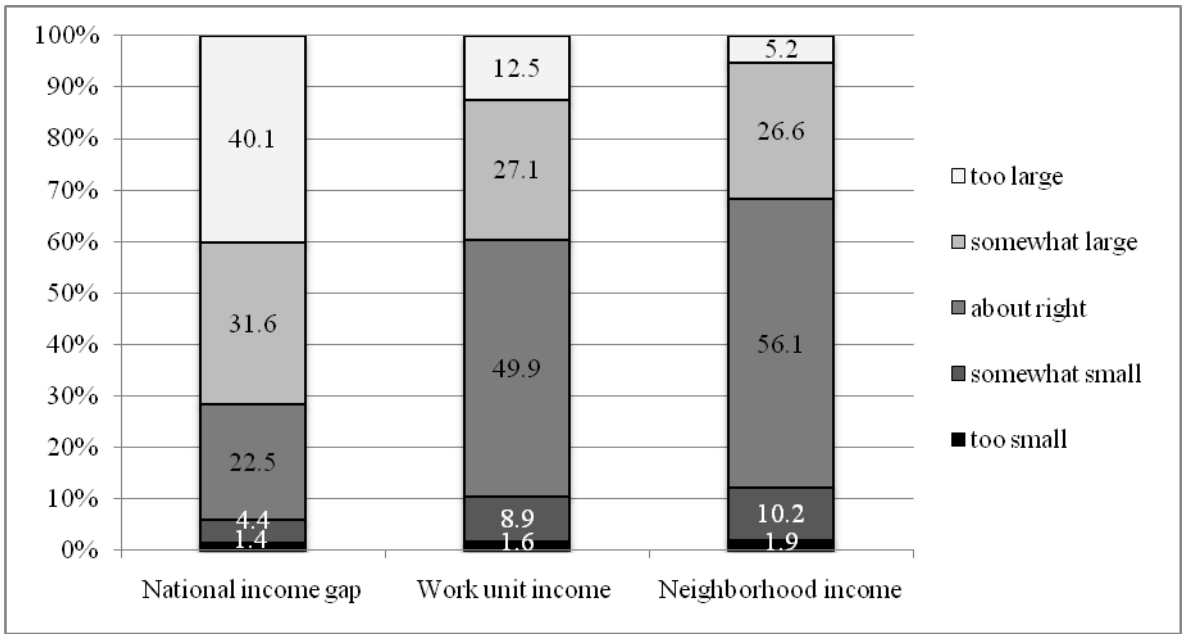

Figure 1.2: Popular Views on Extent of Inequality
Source: 2004 China National Survey on Inequality and Distributive Justice Attitudes

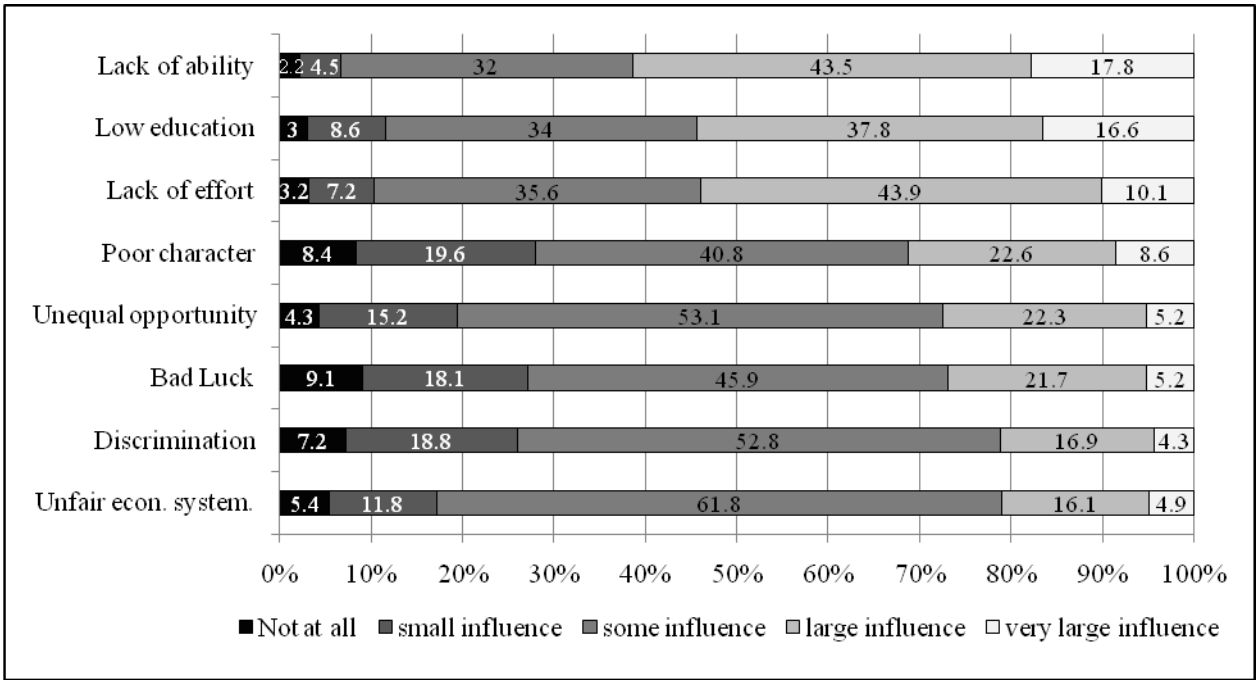

Figure 1.3: Attribution of Why People in China are Poor
Source: 2004 China National Survey on Inequality and Distributive Justice Attitudes

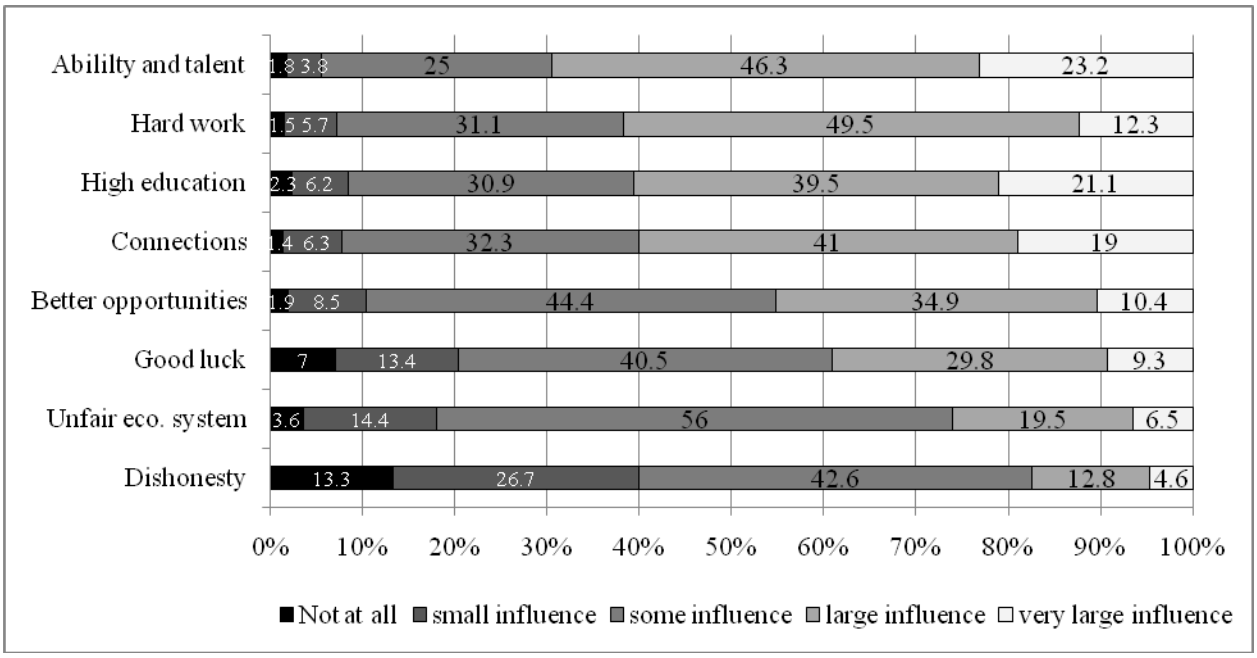

Figure 1.4: Attribution of Why People in China are Rich
Source: 2004 China National Survey on Inequality and Distributive Justice Attitudes

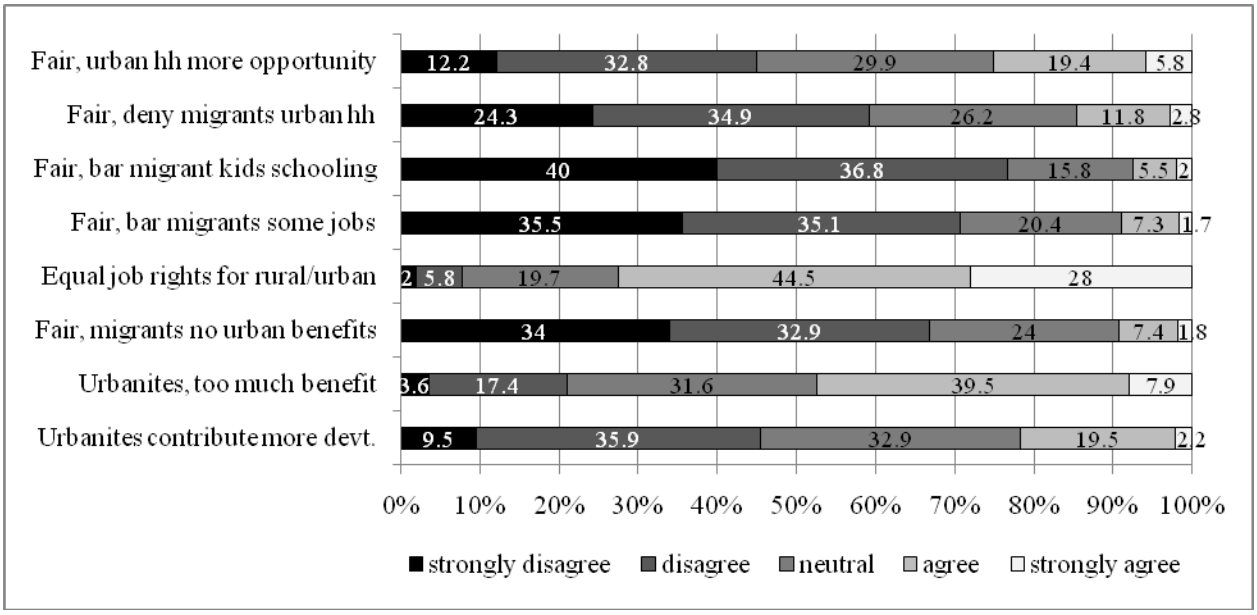

Figure 1.5: Attitudes toward Urban Bias
Source: 2004 China National Survey on Inequality and Distributive Justice Attitudes

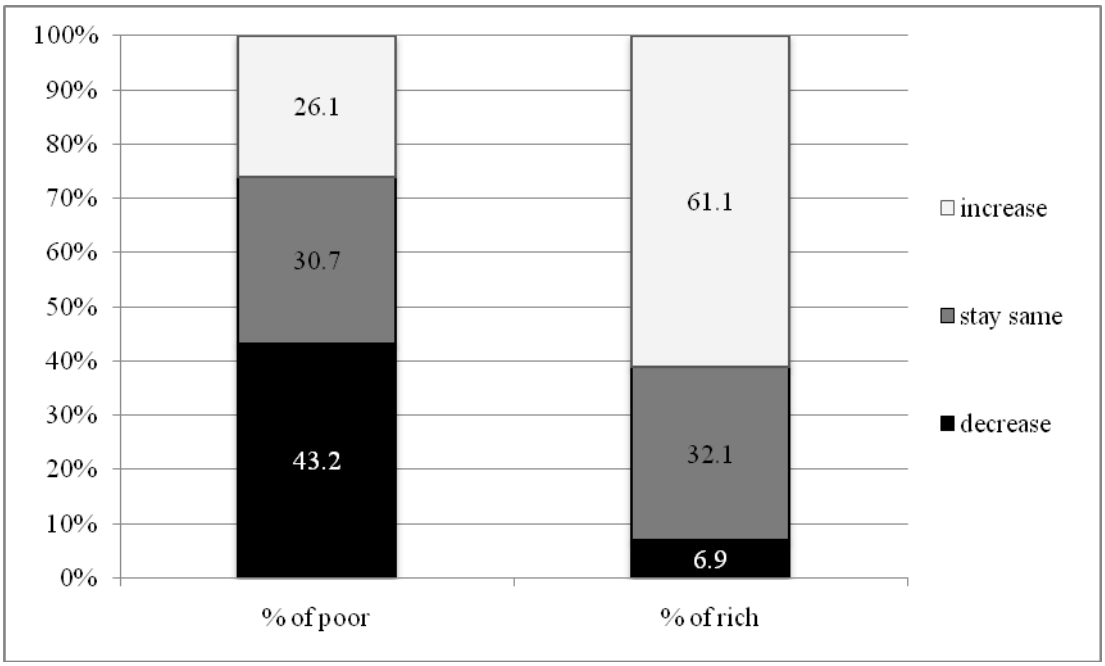

Figure 1.6a: Expected Change in Size of Poor and Rich
Source: 2004 China National Survey on Inequality and Distributive Justice Attitudes

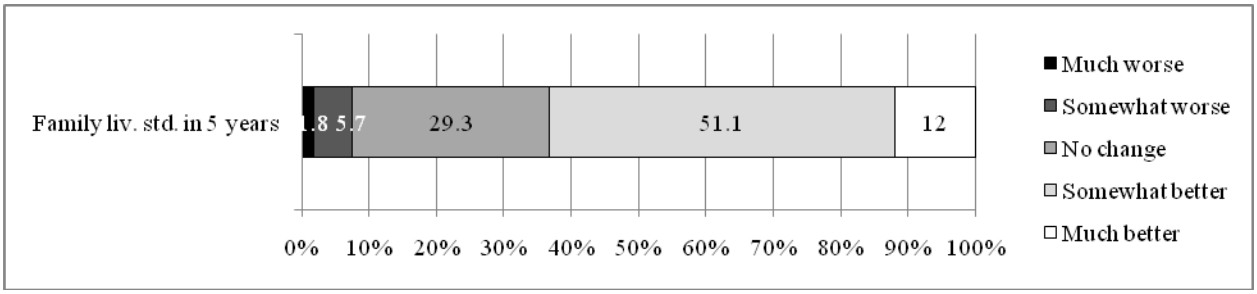

Figure 1.6b: Expectation for the Family's Living Standard 5 Years Later
Source: 2004 China National Survey on Inequality and Distributive Justice Attitudes

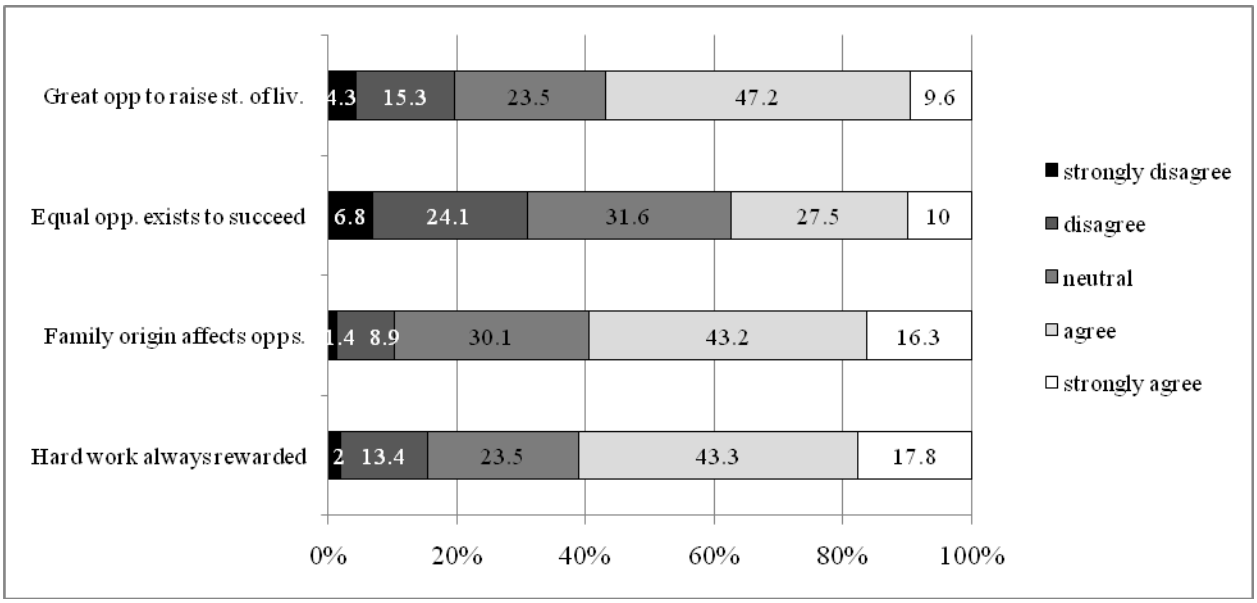

Figure 1.6c: Optimism vs. Pessimism about Social Mobility
Source: 2004 China National Survey on Inequality and Distributive Justice Attitudes